

CollegeCounts 529 Board Meeting
August 6, 2014
MINUTES

Board Present:

Chair Young Boozer
Mr. Chess Bedsole
Dr. Greg Fitch
Dr. Mark Heinrich
Dr. William Meehan
Mr. Dennis Beavers
Mr. Taylor Nichols for Lt. Governor Kay Ivey
Mr. Mychal Smith
Mr. Ronald Stokes

Board Absent:

Mr. Daniel Hughes

Others Present:

Ms. Daria Story, Assistant Treasurer
Ms. Glenda Allred, Deputy Treasurer
Mr. Chad Wright, Director of Cash Management
Ms. Anita Kelley, Program Director
Mr. Jay Steinacher, Union Bank & Trust
Ms. Cari Kaup, Union Bank & Trust
Mr. Mannik Dhillon, Wilshire Associates
Mr. Eric White, Pension Consulting Alliance
Ms. Kay Cesarani, Pension Consulting Alliance

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 fund was held in the RSA Union Conference Room in Montgomery, AL on August 6, 2014.

Agenda Item 1.

The meeting was called to order by Chair Young Boozer at 9:00 a.m.

Agenda Item 2.

Roll was taken with a quorum present.

Agenda Item 3.

Chair Boozer presented the minutes of the May 6, 2014 board meeting. A motion for approval of the minutes was made by Dr. Meehan, and seconded by Mr. Smith with unanimous approval.

Agenda Item 4.A.

Chair Boozer called on Mr. Chad Wright to give the program report. Mr. Wright provided a spreadsheet on the Administrative fund with a listing of the budget, expenses and unexpended balances. He also provided a Statement of Cash Flows for the scholarship program. He stated that the balance in that account has grown from \$6,011,016 on 12/31/2011 to \$9,324,648 as of 6/30/2014. He also stated that the program is preparing to start paying out scholarships for Fall 2014 and that all of the schools had been contacted.

Agenda Item 4.A.1.

Chair Boozer announced that Mr. Wright has taken a new position within the Treasury and introduced Anita Kelley as the new program director. He stated that she has extensive banking experience, holds the Series 6 & 63 licenses and has sold the CollegeCounts product.

Agenda Item 4.B.

Chair Boozer called on Ms. Glenda Allred to give the marketing report. Ms. Allred provided a work in progress report for Big Communications. She stated that the work started in April and that 38 jobs were currently open in regards to changing from the previous marketing firm to BIG with another 6 jobs still pending that were focused around the scholarship program. She said that they had also been working on a television commercial that would air in November. New marketing materials will be presented at the November meeting.

Agenda Item 4.C.

Ms. Allred reported that she had attended several educational conferences over the summer, and provided a summary. Concerning the scholarship program participation, she stated that in the first year all 67 counties had a scholarship award winner. However, this past year six of the counties did not. She has been in contact with two representatives with the school districts of those counties and plans to meet with the other four. She mentioned that a Facebook 529 contest was conducted for account owners to tell their story on why they have a 529 plan. Three winners were awarded \$529 deposited into their account. These entries may be used in future CollegeCounts marketing initiatives.

Agenda Item 4.D.

Chair Boozer called on Jay Steinacher for the quarterly program review. Mr. Steinacher stated that there were 69,949 active accounts with total assets in the plan at \$1.232 billion. This represents a 22.1% increase year over year. He then stated that the number of Alabama account holders is 31,718 with \$474.2 million in plan assets. This is a 14.50% increase year to date with a 39.5% increase year over year. He reviewed the other program reports. Mr. Steinacher stated that contributions had decreased. He stated that two things contributed to the lower contributions for 2014. Last year, the

State Treasurers office invested \$1.7 million into the Opportunity Enhancement Fund and there was exceptional rollover activity in May and June totaling \$3 million. Both of these combined created a \$5 million spike during last year's second quarter. Mr. Steinacher advised that Austin Morgan is doing a great job in his grass roots marketing efforts in the Mobile area. He stated that they had recently hired Madison Jones to cover the North Alabama area. She is a University of Montevallo graduate and has been in training in Nebraska for the past two months. He also advised that Elizabeth Taylor is continuing to help with the Northern Alabama territory until Madison is fully trained. He stated that they are getting great reception wherever they go and are targeting daycares, doctors, dentists, legal offices and libraries among other entities.

Mr. Steinacher asked Ms. Cari Kaup to provide information on the customer care process that Union Bank provides for the program. She stated that over the past quarter the call center had assisted approximately 9,000 customers. She provided information on customer care standards, including call abandon rates and average answer times. Ms. Kaup stated that the bulk of the calls for second quarter were concerning statements and withdrawals for first time users. Ms. Kaup then provided a summary of the upcoming community events and stated that the schedule has been added to the calendar on the CollegeCounts 529 website.

Agenda Item 4.E.

Chair Boozer called on Mr. Mannik Dhillon of Wilshire Associates for the investment performance report. Mr. Dhillon provided commentary on the economy. He also provided a summary of the individual fund portfolios for both the direct and advisor plans and provided commentary on fund performance compared to the relative benchmarks.

Mr. Dhillon then spoke about the SEC reform on Money Markets concerning structural and operational reform to address run risks. The new rules require a floating NAV for institutional money market funds beginning in 2016. Mr. Dhillon clarified that the new rules do not apply to individual owners, specifically 529 or 401k plans. He then summarized a memo from Wilshire dated 7/25/14 regarding PIMCO and the recent portfolio management changes including Mohammed El-Erian's departure. He discussed PIMCO after Bill Gross noting that his departure is not expected in the near future. Mr. Dhillon said that the flows in the fund performance are not a need for concern and that the Total Return Fund is a very liquid investment. He then stated that Wilshire is keeping a close eye on PIMCO and are having frequent conversations with various personnel within the organization. Mr Dhillon advised that there was no recommendation to put PIMCO on watch at this time.

Mr. Dhillon reviewed the various portfolio returns.

Agenda Item 4.F.

Chair Boozer called on Mr. Eric White of Pension Consulting Alliance (PCA) for the consultant's analysis. Mr. White stated that Mr. Jeremy Thiessen had left PCA to pursue an opportunity with TIAA-CREF and that he and Kay Ceserani would be taking a

team approach with the CollegeCounts Program account. Ms. Ceserani provided a brief overview of PCA's organizational structure, the firm's history, core values and services. Mr. White then provided a summary of PCA's investment market risk metrics, fund performance and status report. He stated that there were two funds that remain on watch status as of the end of the quarter. The Voya Global Real Estate Fund (formerly the ING Global Real Estate Fund) remains on watch status in the advisor plan and in the Direct Plan, the Vanguard Intermediate-Term Bond Index Fund remains on watch.

During the Voya Global Real Estate Fund's 18 month watch period, performance has lagged behind the benchmark by 1.8%. However, while the medium-term performance remains in the monitor range, the fund has seen improvement over the past several months and short-term performance has improved to the "positive" range. Relative underperformance is attributed to security selection underperformance in Hong Kong, Australia and Singapore. The fund provides participants with solid, diversified international real estate exposure and PCA remains confident in the fund's management team and investment process. PCA recommends that the fund remain on watch status.

The Vanguard Intermediate-Term Bond Index Fund within the Direct Plan has fallen short of the short-term performance criteria due to its rolling tracking error exceeding 0.4% over the last quarter. Mr. White stated that the fund continues to fulfill its purpose in the Direct Plan by providing a low-fee, passive option for exposure to the intermediate-term domestic fixed income market. He also noted that the fund constitutes less than 0.1% of total assets in the CollegeCounts program and is not held in any of the program's target portfolio. PCA recommends that the fund remain on watch status.

There being no further business, a motion to adjourn was made by Mr. Beavers, seconded by Mr. Bedsole, with unanimous approval. The meeting adjourned at 10:15 a.m.

All detailed reports were received for information and are attached for reference.

Anita Kelley, Recording Secretary

Young Boozer, Chair

